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ACCOUNTING SERIES
Release No. 15

The Securities and Exchange Commission today made public an opinion in its accounting series relative to the description of surplus accruing subsequent to the effective date of a quasi-reorganization. The term "quasi-reorganization" has come to be applied in accounting to the corporate procedure in the course of which a company, without the creation of a new corporate entity, is enabled to eliminate a deficit and establish a new earned surplus account for the accumulation of earnings subsequent to the date selected. The opinion, prepared by William W. Werntz, Chief Accountant, follows:

"Question has frequently been raised as to the proper description of the earned surplus account subsequent to the effective date of a quasi-reorganization. By the term 'quasi-reorganization' I refer to the corporate procedure in the course of which a deficit is charged to capital surplus previously existing or arising in the course of the quasi-reorganization.

"It is my opinion that sound accounting practice ordinarily requires that a clear report be made to stockholders of the proposed restatements and that their formal consent thereto be obtained. In such a situation it is also essential, in my opinion, that full disclosure of the procedure be made in the financial statements for the fiscal year involved and that any subsequent statements of surplus should designate the point of time from which the new earned surplus dates.

"Furthermore, in view of the importance of such proceedings, I am of the opinion that until such time as the results of operations of the company on the new basis are available for an appropriate period of years (at least three) any statement or showing of earned surplus should, in order to provide additional disclosure of the occurrence and the significance of the quasi-reorganization, indicate the total amount of the deficit and any charges that were made to capital surplus in the course of the quasi-reorganization which would otherwise have been required to be made against income or earned surplus.

"Reference is also made to the provisions of Accounting Release Number 16 which indicates the further disclosures that in my opinion are necessary when the transfer of a deficit to capital surplus has been effected by resolution of the board of directors but without approval of the stockholders, such action being permissible under the applicable state law."

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